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SUBJECT: ECOPETROL BUYS BACK CARTAGENA REFINERY; LOOKS FOR NEW PARTNERS

¶1. (SBU) SUMMARY: Marking the end of a troubled three-year partnership, on March 3 state-owned hydrocarbons company Ecopetrol repurchased Swiss-owned Glencore's 51 percent stake in the Cartagena refinery for USD 549 million. Glencore, which took a USD 109 million loss from the price it paid Ecopetrol for the refinery in 2006, sold due to difficulties in financing the USD 3 billion expansion of the refinery amid tight international credit markets. Local politicians, labor unions and financial analysts welcomed the transaction as the end of what they viewed as a ill-conceived refinery partnership with a company primarily experienced in mining. While cash-flush Ecopetrol says it can shoulder the expansion of Colombia's second-largest refinery on its own, President Uribe and Ecopetrol executives have put out feelers for potential new partners, including Petrobras and General Electric. END SUMMARY.

Never Quite on the Same Page

¶2. (SBU) The Ecopetrol-Glencore partnership began in 2006 with Glencore purchasing a majority stake in the outdated and undersized Cartagena refinery from Ecopetrol for USD 657 million. As part of the purchase agreement, Glencore agreed to lead, and majority-finance, a USD 3 billion expansion of the refinery. The project, which is now underway, aims to nearly double refining capacity from 80,000 barrels per day (bpd) to 140,000 bpd as well as significantly improve the environmental quality of the diesel and gasoline produced at the facility. Nevertheless, the partnership was plagued almost from the outset with financing and operational difficulties. As a result, criticism grew in the Colombian Congress and elsewhere that Glencore, largely known for its mining operations in Colombia, did not have sufficient experience in petroleum refining to serve as a successful partner.

Last Straw: Tight Credit

¶3. (SBU) As international credit dried up in the last several months, Glencore warned it would not have access to enough financing to meet its contractual requirements for the refinery expansion. After public comments by President Uribe to review Glencore's coal mining concessions if it failed to meet obligations with the Cartagena refinery, Glencore and Ecopetrol began negotiating an exit strategy from the refinery project. Energy Minister Martinez told Econoff that the GOC urged a quick and amicable settlement to avoid a

long-term legal dispute that would damage Colombia's investment image. However, he stressed that the GOC did not push for any specific terms or sale price for the deal. Under the final arrangement, Glencore sold its majority stake back to Ecopetrol for USD 109 million less than it paid in 2006.

Good Deal for Ecopetrol

¶4. (SBU) Although the original 2006 sale to Glencore was criticized by various politicians, labor unions and industry experts, Ecopetrol's re-purchase has been greeted with almost universal approval. Supporters point out that Ecopetrol is in a much stronger position now to finance the expansion operation after its partial privatization in 2007, accumulated profits from the recent spike in oil prices, and its listing on the New York Stock Exchange last year. Among others, former Fedesarrollo Director and current shareholder representative on Ecopetrol's board of directors Mauricio Cardenas, praised Ecopetrol reaching negotiated agreement with Glencore rather than getting bogged down in a long contractual dispute with the company. Minister Martinez echoed the point with us, saying the quick resolution allows Ecopetrol to continue the much-needed refinery expansion without interruption and opens the door to pursue a new partner immediately. Even the National Oil Workers' Union (USO), often a vocal critic of Ecopetrol, voiced its approval of the buyback.

Still Interested in New Partners

¶5. (SBU) Ecopetrol President Javier Gutierrez has stated publicly that Ecopetrol is fully prepared to proceed with the refinery expansion on its own as part of an ambitious company-wide investment plan. The day after the announced deal with Glencore, Ecopetrol launched a USD 8.1 billion debt issuance to finance its investment plans. Nonetheless, the company and the GOC have indicated interest in considering a new international partner for the refinery expansion. In a visit to Brazil during the Glencore-Ecopetrol sale negotiations, President Uribe publicly invited Brazilian state-owned hydrocarbons company Petrobras to consider investing in the project. (NOTE: Petrobras was the runner-up bid to Glencore for the Cartagena refinery project in 2006. END NOTE.) Petrobras Colombia President Abilio Ramos told us his headquarters in Brazil is studying the opportunity, noting that Petrobras has recently purchased refineries in the U.S. and Japan. Petrobras already has plans to invest USD 404 million in exploration and production in Colombia over the next five years. Beyond Petrobras, General Electric has also expressed interest in joining the Cartagena refinery expansion, but not yet begun any formal discussions with Ecopetrol.
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